

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input checked="" type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name Watertown Charter Township	County Clinton
Audit Date 12/31/05	Opinion Date 3/1/06	Date Accountant Report Submitted to State: 6/29/06	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ Yes ☒ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ Yes ☒ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☐ Yes ☒ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☒ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☒ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ Yes ☒ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☒ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ Yes ☒ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ Yes ☒ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	✓		
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGU).			✓

Certified Public Accountant (Firm Name)

REHMANN ROBSON - Gerald J. Desloover, CPA

Street Address

5800 Gratiot, PO Box 2025

City

Saginaw

State

MI

ZIP

48638

Accountant Signature

Rehmann Robson

Date

6/29/06

WATERTOWN CHARTER TOWNSHIP

Clinton County, Michigan

FINANCIAL STATEMENTS

**For the Year Ended
December 31, 2005**



REHMANN ROBSON

Certified Public Accountants

WATERTOWN CHARTER TOWNSHIP

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REHMANN ROBSON

Certified Public Accountants

A member of THE REHMANN GROUP



INDEPENDENT AUDITORS' REPORT

March 1, 2006

Board of Trustees
Watertown Charter Township
Grand Ledge, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of ***Watertown Charter Township, Michigan***, as of and for the year ended December 31, 2005, which collectively comprise the Township's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Township's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Watertown Charter Township, Michigan, as of December 31, 2005, and the respective changes in financial position and cash flows, where applicable, thereof and the budgetary comparisons for the general fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis on pages 3-8 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Watertown Charter Township's basic financial statements. The combining fund financial statements listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly presented, in all material respects, in relation to the basic financial statements taken as a whole.

A handwritten signature in black ink, reading "Lehmann Lohman". The signature is written in a cursive style with a large, prominent 'L' at the beginning.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Management's Discussion and Analysis

As management of Watertown Charter Township, Clinton County, Michigan, we offer readers of the Township's financial statements this narrative overview and analysis of the financial activities of the Township for the fiscal year ended December 31, 2005.

Financial Highlights

- The assets of the Township exceeded its liabilities at the close of the most recent fiscal year by \$10,707,930 (*net assets*). Of this amount, \$7,636,502 (*unrestricted net assets*) may be used to meet the government's ongoing obligations to citizens and creditors. The assets of the Township at the close of 2004 exceeded its liabilities by \$10,365,538 (*net assets*). Of this amount, \$8,312,294 was *unrestricted net assets*.
- The government's total net assets increased by \$342,392 in 2005 compared to \$3,305,465 during 2004.
- As of the close of the current fiscal year, the Township's governmental funds reported combined ending fund balances of \$2,083,269 increase of \$400,926 in comparison with the prior year's ending fund balance of \$1,682,243. Approximately 99 percent of this total amount, or \$2,064,893, is available for spending at the government's discretion (*unreserved fund balance*) compared to \$1,663,895 at the end of 2004. .
- At the end of the current fiscal year, unreserved fund balance for the General Fund was \$1,768,281 or 112 percent of total general fund expenditures compared to \$1,257,469 or 44 percent ending in 2004.
- The Township's total bonded debt decreased by \$321,335 during the current fiscal year; from \$3,271,205 ending in 2004 to \$2,949,670 fiscal year end 2005.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Township's basic financial statements. The Township's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements. The *government-wide financial statements* are designed to provide readers with a broad overview of the Township's finances, in a manner similar to a private-sector business.

The *statement of net assets* presents information on all of the Township's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Township is improving or deteriorating.

The *statement of activities* presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the Township that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities of the Township include legislative, general government, public safety, public works, and parks and recreation. The business-type activities of the Township include sanitary sewer and water distribution operations.

Fund financial statements. A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Township, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the Township can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

Governmental funds. *Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The Township maintains four individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General Fund, which is considered to be a major fund, and for the three nonmajor funds in the aggregate.

The Township adopts an annual appropriated budget for its general and special revenue funds. Budgetary comparison statements have been provided herein to demonstrate compliance with those budgets.

Proprietary funds. *Enterprise funds, the only propriety fund type used by the Township*, are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The Township uses enterprise funds to account for its sanitary sewer and for water distribution operations.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The basic proprietary fund financial statements provide separate information for the sanitary sewer and water distribution systems, both of which are considered to be major funds of the Township.

Fiduciary funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are *not* reflected in the government-wide financial statements because the resources of those funds are *not* available to support the Township's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of Watertown Charter Township, assets exceeded liabilities by \$10,707,930 at the close of the most recent fiscal year.

Of the Township's net assets, \$2,783,992 (26 percent) reflects its investment in capital assets (e.g. infrastructure, land, buildings, equipment, and vehicles); less any related debt used to acquire those assets that is still outstanding. The Township uses these capital assets to provide services to citizens; consequently, these assets are *not* available for future spending. Although the Township's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

In addition, the Township owns assets in a joint venture with Eagle Township known as the Looking Glass Regional Fire Authority. Currently the authority is funded primarily thru contributions from Watertown Charter Township (65%) and Eagle Township (35%). The Authority reported Capital Assets (net of depreciation) of \$2,055,741 as of December 31, 2004 and \$2,036,361 as of December 31, 2005 for fixtures, building, equipment, and land.

At the end of the current year, the Township is able to report positive balances in all three categories of net assets, both for the government as a whole, as well as for its separate governmental and business-type activities.

The government's net assets increased by \$342,392 during the current fiscal year. Most of the increase is attributable to additions to the sanitary sewer system. The large increase in net assets reported for fiscal 2004 was primarily a result of a capital gain realized on the sale of capital investments in Southern Clinton County Municipal Utilities Authority.

Governmental activities. Governmental activities increased the Township's net assets by \$397,626 during fiscal year 2005. Key elements of this change relate to practices adopted by the township board to balance the budget using only the constitutional portion of state revenue sharing. The board has also taken a conservative approach to estimating revenues.

Business-type activities. Business-type activities decreased the Township's net assets by \$55,234 during fiscal year 2005 due primarily to ongoing costs exceeding ongoing revenues in the two enterprise funds.

Statement of Net Assets

	Governmental Activities		Business-type Activities		Total	
	2005	2004	2005	2004	2005	2004
Current and other assets	\$3,218,474	\$2,747,718	\$5,983,107	\$7,135,288	\$9,201,581	\$9,883,006
Capital assets	153,289	143,137	5,502,588	4,787,075	5,655,877	4,930,212
Total assets	3,371,763	2,890,855	11,485,695	11,922,363	14,857,458	14,813,218
Long term liabilities outstanding	83,383	107,783	2,871,885	3,160,505	2,955,268	3,268,288
Other liabilities	1,132,873	1,025,191	61,387	154,201	1,194,260	1,179,392
Total liabilities	1,216,256	1,132,974	2,933,272	3,314,706	4,149,528	4,447,680
Net assets:						
Invested in capital assets, net of related debt	153,289	143,137	2,630,703	1,626,570	2,783,992	1,769,707
Restricted	287,436	283,537			287,436	283,537
Unrestricted	1,714,782	1,331,207	5,921,720	6,981,087	7,636,502	8,312,294
Total Net Assets	\$2,155,507	\$1,757,881	\$8,552,423	\$8,607,657	\$10,707,930	\$10,365,538

Statement of Activities

	Governmental Activities		Business Type Activities		Total	
	2005	2004	2005	2004	2005	2004
Revenue:						
Program revenues:						
Charges for services	\$ 359,209	\$ 469,442	\$ 772,393	\$ 809,509	\$1,131,602	\$1,278,951
Operating grants and contributions	103	1,802			103	1,802
Capital grants and contributions	1,549	27,524			1,549	27,524
General revenues:						
Property taxes	1,003,829	896,957			1,003,829	896,957
Other	584,063	566,025	85,929	3,149,674	669,992	3,715,699
Total revenues	1,948,753	1,961,750	858,322	3,959,183	2,807,075	5,920,933
Expenses:						
Legislative	33,087	35,741			33,087	35,741
General government	690,090	657,841			690,090	657,841
Public safety	576,019	665,546			576,019	665,546
Public works	179,861	273,077			179,861	273,077
Community enrichment & development	82,656	62,362			82,656	62,362
Recreation and cultural	9,222	85,305			9,222	85,305
Interest on long-term debt	5,393	23,903			5,393	23,903
Sewage disposal			643,110	578,569	643,110	578,569
Water extension			245,245	233,124	245,245	233,124
Total expenses	1,576,328	1,803,775	888,355	811,693	2,464,683	2,615,468
Increase (decrease) in net assets before transfers	372,425	157,975	(30,033)	3,147,490	342,392	3,305,465
Transfers	25,201	927,642	(25,201)	(927,642)	-	-
Increase (decrease) in net assets	397,626	1,085,617	(55,234)	2,219,848	342,392	3,305,465
Net assets – Beginning of year	1,757,881	672,264	8,607,657	6,387,809	10,365,538	7,060,073
Net assets – End of year	\$2,155,507	\$1,757,881	\$8,552,423	\$8,607,657	\$10,707,930	\$10,365,538

Financial Analysis of the Government's Funds

As noted earlier, the Township uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds. The focus of the Township's *governmental funds* is to provide information on near-term inflows, outflows, and balances of *spendable* resources. Such information is useful in assessing the Township's financing requirements. In particular, *unreserved fund balance* may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the Township's governmental funds reported combined ending fund balances of \$2,083,269 an increase of \$ 400,926 in comparison with the prior year. Approximately 86 percent of this total amount constitutes *unreserved fund balance*, which is available for spending at the government's discretion. The remainder of fund balance is *reserved* to indicate that it is not available for new spending because it has already been committed for prepaid expenditures.

The General Fund is the chief operating fund of the Township. At the end of the current fiscal year, unreserved fund balance of the general fund was \$1,768,281 while total fund balance was \$1,795,154. As a measure of the general fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unreserved fund balance represents 112 percent of total general fund expenditures.

The fund balance of the Township's General Fund increased by \$397,027 during the current fiscal year, primarily as a result of ongoing revenues exceeding ongoing expenditures.

Proprietary funds. The Township's proprietary funds provide the same type of information found in the government wide financial statements, but in more detail.

Unrestricted net assets of the Sewer Fund and Water Extension Funds at the end of the year amounted to \$4,444,567 and \$1,477,153 respectively. The sewer fund had a decrease for the year of \$959,769 and the water fund had a decrease for the year of \$99,598. .

General Fund Budgetary Highlights

Differences between the original and final amended budgeted revenues were for the most part, twofold: A very small decrease in expected revenues was experienced along with substantial savings in expenses through efforts to keep expenses at or near previous levels and by delays in construction projects for road improvements and bridge work.

Capital Asset and Debt Administration

Capital assets. The Township's investment in capital assets for its governmental and business type activities as of December 31, 2005, amounted to \$5,655,877 (net of accumulated depreciation). This investment in capital assets includes land, land improvements, infrastructure, buildings and improvements, park and recreation facilities, machinery and equipment and construction in progress. The total increase in the Township's investment in capital assets for the current fiscal year of \$715,513 resulted primarily from investments in sewer system improvements.

Additional information on the Township's capital assets can be found in note 3-C in the footnotes to the financial statements.

Long-term debt. At the end of the current fiscal year, the Township had total bonded debt outstanding of \$2,949,670. Of this amount, the entire debt is backed by the full faith and credit of the government.

State statutes limit the amount of general obligation debt a governmental entity may issue to 10 percent of its total assessed valuation. Additional information on the Township's long-term debt can be found in note 3-F in the footnotes to the financial statements.

Economic Factors and Next Year's Budgets and Rates

The following factors were considered in preparing the Township's budget for the 2006 fiscal year:

- The emphasis on controlling costs yet providing quality services to our citizens continued to be a major consideration in the 2006 budget development.
- While the total ad valorem taxable values increased from 2005 to 2006, estimates were reduced to anticipate the slowdown expected in new building.
- Statutory state-shared revenues are expected to continue to decline as the state's economy continues to decline.

Requests for Information

This financial report is designed to provide a general overview of the Township's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Clerk, Watertown Charter Township, 12803 S Wacousta Road, Grand Ledge, Michigan 48837, E-mail: Jhusby@watertowntownship.com.

BASIC FINANCIAL STATEMENTS

GOVERNMENT-WIDE FINANCIAL STATEMENTS

WATERTOWN CHARTER TOWNSHIP, MICHIGAN
Statement of Net Assets
December 31, 2005

	Primary Government		
	Governmental Activities	Business-type Activities	Total
Assets			
Cash and cash equivalents	\$ 767,482	\$ 621,621	\$ 1,389,103
Restricted cash and cash equivalents	-	101,453	101,453
Investments	1,736,567	2,184,924	3,921,491
Receivables, net	696,049	1,949,028	2,645,077
Prepaid items and other assets	18,376	60,437	78,813
Investment in joint venture	-	1,065,644	1,065,644
Capital assets not being depreciated	41,570	-	41,570
Capital assets being depreciated, net	111,719	5,502,588	5,614,307
 Total assets	 3,371,763	 11,485,695	 14,857,458
Liabilities			
Accounts payable and accrued expenses	53,560	61,387	114,947
Unearned revenue	1,079,313	-	1,079,313
Long-term liabilities:			
Due within one year	52,048	295,000	347,048
Due in more than one year	31,335	2,576,885	2,608,220
 Total liabilities	 1,216,256	 2,933,272	 4,149,528
Net assets			
Invested in capital assets, net of related debt	153,289	2,630,703	2,783,992
Restricted for:			
Debt service	3,339	-	3,339
Capital projects	91,994	-	91,994
Improvements	192,103	-	192,103
Unrestricted	1,714,782	5,921,720	7,636,502
 Total net assets	 \$ 2,155,507	 \$ 8,552,423	 \$ 10,707,930

The accompanying notes are an integral part of these financial statements.

WATERTOWN CHARTER TOWNSHIP, MICHIGAN

Statement of Activities

For the Year Ended December 31, 2005

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Primary government					
Governmental activities:					
Legislative	\$ 33,087	\$ -	\$ -	\$ -	\$ (33,087)
General government	690,090	33,850	-	-	(656,240)
Public safety	576,019	43,424	-	-	(532,595)
Public works	179,861	-	-	1,549	(178,312)
Community and economic development	82,656	273,554	-	-	190,898
Recreation and cultural	9,222	8,269	103	-	(850)
Interest on long-term debt	5,393	112	-	-	(5,281)
Total governmental activities	<u>1,576,328</u>	<u>359,209</u>	<u>103</u>	<u>1,549</u>	<u>(1,215,467)</u>
Business-type activities:					
Sewage disposal	643,110	526,746	-	-	(116,364)
Water extension	245,245	245,647	-	-	402
Total business-type activities	<u>888,355</u>	<u>772,393</u>	<u>-</u>	<u>-</u>	<u>(115,962)</u>
 Total primary government	 <u>\$ 2,464,683</u>	 <u>\$ 1,131,602</u>	 <u>\$ 103</u>	 <u>\$ 1,549</u>	 <u>\$ (1,331,429)</u>

continued...

WATERTOWN CHARTER TOWNSHIP, MICHIGAN
Statement of Activities (Concluded)
For the Year Ended December 31, 2005

Functions/Programs	Primary Government		
	Governmental Activities	Business-type Activities	Total
Changes in net assets			
Net (expense) revenue	\$ (1,215,467)	\$ (115,962)	\$ (1,331,429)
General revenues:			
Property taxes	1,003,829	-	1,003,829
Grants and contributions not restricted to specific programs	411,962	-	411,962
Other unrestricted revenue	129,086	-	129,086
Unrestricted investment earnings	37,312	-	37,312
Gain on sale of capital assets	5,703	-	5,703
Gain on investment in joint venture	-	85,929	85,929
Transfers - internal activities	25,201	(25,201)	-
Total general revenues and transfers	1,613,093	60,728	1,673,821
Change in net assets	397,626	(55,234)	342,392
Net assets, beginning of year	1,757,881	8,607,657	10,365,538
Net assets, end of year	\$ 2,155,507	\$ 8,552,423	\$ 10,707,930

The accompanying notes are an integral part of these financial statements.

FUND FINANCIAL STATEMENTS

WATERTOWN CHARTER TOWNSHIP, MICHIGAN

Balance Sheet Governmental Funds December 31, 2005

	General	Nonmajor Funds	Totals
Assets			
Cash and cash equivalents	\$ 712,416	\$ 55,066	\$ 767,482
Investments	1,461,334	275,233	1,736,567
Taxes receivable	561,535	18,567	580,102
Special assessments receivable	13,835	-	13,835
Accounts receivable	3,561	550	4,111
Due from other governments	98,001	-	98,001
Due from other funds	27,358	-	27,358
Prepaid expenditures	18,376	-	18,376
	<hr/>	<hr/>	<hr/>
<u>TOTAL ASSETS</u>	\$ 2,896,416	\$ 349,416	\$ 3,245,832
 <u>LIABILITIES AND FUND BALANCES</u>			
Liabilities			
Accounts payable	\$ 34,573	\$ -	\$ 34,573
Accrued wages	16,169	-	16,169
Other liabilities	2,139	-	2,139
Due to other funds	-	27,358	27,358
Deferred revenue	1,048,381	33,943	1,082,324
	<hr/>	<hr/>	<hr/>
Total liabilities	1,101,262	61,301	1,162,563
 Fund balances			
Reserved for prepaids	18,376	-	18,376
Unreserved:			
Designated for subsequent year expenditures	8,497	-	8,497
Undesignated	1,768,281	-	1,768,281
Undesignated, reported in nonmajor:			
Special revenue funds	-	192,103	192,103
Debt service funds	-	4,018	4,018
Capital projects funds	-	91,994	91,994
	<hr/>	<hr/>	<hr/>
Total fund balances	1,795,154	288,115	2,083,269
	<hr/>	<hr/>	<hr/>
<u>TOTAL LIABILITIES AND FUND BALANCES</u>	\$ 2,896,416	\$ 349,416	\$ 3,245,832

The accompanying notes are an integral part of these financial statements.

WATERTOWN CHARTER TOWNSHIP, MICHIGAN
Reconciliation of Fund Balances on the Balance Sheet
for Governmental Funds to Net Assets
of Governmental Activities on the Statement of Net Assets
December 31, 2005

Fund balances - total governmental funds	\$ 2,083,269
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Amounts reported for *governmental activities* in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources, and therefore not reported in the funds.

Add: capital assets not being depreciated	41,570
Add: capital assets being depreciated	111,719

Because the focus of governmental funds is on short-term financing, some assets will not be available to pay for current-period expenditures. Those assets (such as certain receivables) are offset by deferred revenues in the governmental funds, and thus are not included in fund balance.

Add: deferred long-term receivables	3,011
-------------------------------------	-------

Certain liabilities, such as bonds payable, are not due and payable in the current period, and therefore are not reported in the funds.

Subtract: bonds payable	(62,670)
Subtract: compensated absences	(20,713)
Subtract: accrued interest on long-term liabilities	(679)
	(84,062)

Net assets of governmental activities	\$ 2,155,507
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The accompanying notes are an integral part of these financial statements.

WATERTOWN CHARTER TOWNSHIP, MICHIGAN
Statement of Revenue, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended December 31, 2005

	General	Nonmajor Funds	Totals
Revenue			
Taxes	\$ 967,426	\$ 36,403	\$ 1,003,829
Special assessments	46,893	-	46,893
Licenses and permits	386,670	-	386,670
State revenue sharing	297,632	-	297,632
Charges for services	52,277	-	52,277
Interest	37,312	6,454	43,766
Rentals	22,173	-	22,173
Contributions and donations	114,799	-	114,799
Other revenue	12,863	-	12,863
	<hr/>	<hr/>	<hr/>
Total revenue	1,938,045	42,857	1,980,902
	<hr/>	<hr/>	<hr/>
Expenditures			
Current:			
Legislative	33,087	-	33,087
General government	657,092	-	657,092
Public safety and health	581,255	-	581,255
Public works	157,754	-	157,754
Community and economic development	82,026	-	82,026
Recreation and cultural	2,038	-	2,038
Capital outlay	58,670	2,230	60,900
Debt service:			
Principal	-	31,335	31,335
Interest	-	5,393	5,393
	<hr/>	<hr/>	<hr/>
Total expenditures	1,571,922	38,958	1,610,880
	<hr/>	<hr/>	<hr/>
Revenue over (under) expenditures	366,123	3,899	370,022
	<hr/>	<hr/>	<hr/>
Other financing sources			
Transfers in	25,201	-	25,201
Proceeds from sales of capital assets	5,703	-	5,703
	<hr/>	<hr/>	<hr/>
Total other financing sources	30,904	-	30,904
	<hr/>	<hr/>	<hr/>
Net change in fund balances	397,027	3,899	400,926
	<hr/>	<hr/>	<hr/>
Fund balances, beginning of year	1,398,127	284,216	1,682,343
	<hr/>	<hr/>	<hr/>
Fund balances, end of year	\$ 1,795,154	\$ 288,115	\$ 2,083,269
	<hr/>	<hr/>	<hr/>

The accompanying notes are an integral part of these financial statements.

WATERTOWN CHARTER TOWNSHIP, MICHIGAN
Reconciliation of the Statement of Revenue, Expenditures
and Changes in Fund Balances
of Governmental Funds to the Statement of Activities
For the Year Ended December 31, 2005

Net change in fund balances - total governmental funds	\$ 400,926
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Amounts reported for *governmental activities* in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Add: capital outlay	31,803
Subtract: depreciation expense	(21,651)

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds, but rather are deferred to following years.

Subtract: current year revenue received on long-term receivables	(37,852)
--	----------

Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long term-liabilities.

Add: principal payments on long-term liabilities	31,335
--	--------

Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.

Add: decrease in the accrual of compensated absences	(6,935)
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Change in net assets of governmental activities	\$ <u>397,626</u>
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The accompanying notes are an integral part of these financial statements.

WATERTOWN CHARTER TOWNSHIP, MICHIGAN
Statement of Revenue, Expenditures and Changes in Fund Balance
Budget and Actual
General Fund
For the Year Ended December 31, 2005

	Original Budget	Final Budget	Actual	Actual over (under) Final Budget
Revenue				
Taxes	\$ 962,507	\$ 962,507	\$ 967,426	\$ 4,919
Special assessments	26,667	46,791	46,893	102
Licenses and permits:				
Landfill	53,000	53,000	53,346	346
Planning, zoning & building	295,670	295,670	273,554	(22,116)
Franchise fees	65,000	65,000	59,770	(5,230)
State revenue sharing	290,000	290,000	297,632	7,632
Charges for services:				
Fire runs	27,500	27,500	43,424	15,924
Cemetery	8,525	8,525	7,473	(1,052)
Parks and recreation	-	-	880	880
Other	6,041	6,041	500	(5,541)
Interest	23,000	23,000	37,312	14,312
Rentals:				
Parks	4,300	4,300	7,023	2,723
Other	16,200	16,200	15,150	(1,050)
Contributions and donations:				
G.L.I.T.	115,000	115,000	114,330	(670)
Parks	-	-	469	469
Other revenue	26,750	26,750	12,863	(13,887)
Total revenue	1,920,160	1,940,284	1,938,045	(2,239)
Expenditures				
Legislative				
Township board	41,434	41,434	33,087	(8,347)
General government				
Supervisor	17,330	17,330	14,595	(2,735)
Elections	2,480	2,480	2,113	(367)
Assessor	49,720	49,720	49,592	(128)
Attorney	50,000	50,000	6,555	(43,445)
Clerk	57,319	57,319	54,789	(2,530)
Board of review	876	876	581	(295)
Treasurer	57,987	57,987	54,336	(3,651)
General services administration	379,565	379,565	338,858	(40,707)
Buildings and grounds	114,449	114,449	108,125	(6,324)
Other property	3,100	3,100	1,447	(1,653)
Cemetery	4,416	4,416	2,522	(1,894)
Insurance	24,600	24,600	22,892	(1,708)
Refunds and rebates	10,600	10,600	687	(9,913)
Total general government	772,442	772,442	657,092	(115,350)

WATERTOWN CHARTER TOWNSHIP, MICHIGAN
Statement of Revenue, Expenditures and Changes in Fund Balance
Budget and Actual
General Fund
For the Year Ended December 31, 2005

	Original Budget	Final Budget	Actual	Actual over (under) Final Budget
Expenditures (continued)				
Public safety and health				
Public safety and health	\$ 397,438	\$ 397,438	\$ 348,759	\$ (48,679)
Building inspection	242,605	242,605	232,496	(10,109)
Total public safety and health	640,043	640,043	581,255	(58,788)
Public works				
Drains at large	35,000	35,000	11,316	(23,684)
Highways, streets, and bridges	307,500	307,500	130,279	(177,221)
Street lighting	2,800	22,924	16,159	(6,765)
Total public works	345,300	365,424	157,754	(207,670)
Community and economic development				
Planning and zoning	91,651	91,651	82,026	(9,625)
Recreation and cultural				
Parks and recreation	5,000	5,000	2,038	(2,962)
Capital outlay	190,000	190,000	58,670	(131,330)
Total expenditures	2,085,870	2,105,994	1,571,922	(534,072)
Revenue over (under) expenditures	(165,710)	(165,710)	366,123	531,833
Other financing sources				
Transfers in	43,500	43,500	25,201	(18,299)
Proceeds from sales of capital assets	-	-	5,703	5,703
Total other financing sources	43,500	43,500	30,904	(12,596)
Net change in fund balances	(122,210)	(122,210)	397,027	519,237
Fund balance, beginning of year	1,398,127	1,398,127	1,398,127	-
Fund balance, end of year	<u>\$ 1,275,917</u>	<u>\$ 1,275,917</u>	<u>\$ 1,795,154</u>	<u>\$ 519,237</u>

The accompanying notes are an integral part of these financial statements.

WATERTOWN CHARTER TOWNSHIP, MICHIGAN**Statement of Net Assets****Proprietary Funds****December 31, 2005**

	Sewage Disposal	Water Extension	Totals
Assets			
Current assets:			
Cash and cash equivalents	\$ 568,780	\$ 52,841	\$ 621,621
Restricted cash	45,084	56,369	101,453
Investments	1,713,032	471,892	2,184,924
Accounts receivable	13,547	-	13,547
Interest receivable	30,618	27,843	58,461
Current portion of special assessments receivable	33,901	48,937	82,838
Prepaid expenses	21,169	-	21,169
Deferred charges	20,867	18,401	39,268
Total current assets	2,446,998	676,283	3,123,281
Noncurrent assets:			
Special assessments receivable, net of current portion	974,685	819,497	1,794,182
Investment in joint venture	1,065,644	-	1,065,644
Capital assets being depreciated	3,879,521	1,623,067	5,502,588
Total noncurrent assets	5,919,850	2,442,564	8,362,414
Total assets	8,366,848	3,118,847	11,485,695
Liabilities			
Current liabilities:			
Accounts payable	17,500	-	17,500
Accrued interest payable	25,260	18,627	43,887
Current portion of long-term debt	155,000	140,000	295,000
Total current liabilities	197,760	158,627	356,387
Long-term liabilities:			
Due in more than one year	1,398,859	1,178,026	2,576,885
Total liabilities	1,596,619	1,336,653	2,933,272
Net assets			
Invested in capital assets, net related debt	2,325,662	305,041	2,630,703
Unrestricted	4,444,567	1,477,153	5,921,720
Total net assets	\$ 6,770,229	\$ 1,782,194	\$ 8,552,423

The accompanying notes are an integral part of these financial statements.

WATERTOWN CHARTER TOWNSHIP, MICHIGAN
Statement of Revenue, Expenses
and Changes in Fund Net Assets
Proprietary Funds
For the Year Ended December 31, 2005

	Sewage Disposal	Water Extension	Totals
Operating revenue			
User fee charges	\$ 269,677	\$ 35,842	\$ 305,519
Hook-up fees and permits	142,699	156,900	299,599
Total operating revenue	412,376	192,742	605,118
Operating expense			
General administration	154,251	144,584	298,835
Sewage plant administration	288,500	-	288,500
Depreciation	123,797	43,372	167,169
Total operating expense	566,548	187,956	754,504
Operating income (loss)	(154,172)	4,786	(149,386)
Non-operating revenue (expenses)			
Interest revenue	114,370	52,905	167,275
Interest expense	(76,562)	(57,289)	(133,851)
Gain on investment in SCCMUA	85,929	-	85,929
Total non-operating revenue (expenses)	123,737	(4,384)	119,353
Income (loss) before transfers	(30,435)	402	(30,033)
Transfers			
Transfers (out)	(20,691)	(4,510)	(25,201)
Change in net assets	(51,126)	(4,108)	(55,234)
Net assets, beginning of year	6,821,355	1,786,302	8,607,657
Net assets, end of year	<u>\$ 6,770,229</u>	<u>\$ 1,782,194</u>	<u>\$ 8,552,423</u>

The accompanying notes are an integral part of these financial statements.

WATERTOWN CHARTER TOWNSHIP, MICHIGAN
Statement of Cash Flows
Proprietary Funds
For the Year Ended December 31, 2005

	Sewage Disposal	Water Extension	Totals
Cash flows from operating activities			
Cash received from customers	\$ 413,063	\$ 192,742	\$ 605,805
Cash payments to suppliers for goods and services	(573,197)	(143,168)	(716,365)
Net cash provided by (used in) operating activities	(160,134)	49,574	(110,560)
Cash flows from non-capital financing activities			
Transfers (out)	(20,691)	(4,510)	(25,201)
Net cash provided (used) by non-capital financing activities	(20,691)	(4,510)	(25,201)
Cash flows from capital and related financing activities			
Purchase of capital assets	(882,682)	-	(882,682)
Payments received on special assessments	125,781	89,283	215,064
Interest payments	(78,346)	(57,045)	(135,391)
Principal payments	(150,000)	(140,000)	(290,000)
Net cash provided (used) by capital and related financing activities	(985,247)	(107,762)	(1,093,009)
Cash flows from investing activities			
Purchases of investments	-	(167,051)	(167,051)
Proceeds from sale of investments	1,200,683	-	1,200,683
Interest received	157,195	81,418	238,613
Capital contributions to SCCMUA	(342,114)	-	(342,114)
Net cash provided (used) by investing activities	1,015,764	(85,633)	930,131
Net increase (decrease) in cash and cash equivalents	(150,308)	(148,331)	(298,639)
Cash and cash equivalents, beginning of year	764,172	257,541	1,021,713
Cash and cash equivalents, end of year	\$ 613,864	\$ 109,210	\$ 723,074

WATERTOWN CHARTER TOWNSHIP, MICHIGAN
Statement of Cash Flows
Proprietary Funds (Concluded)
For the Year Ended December 31, 2005

	Sewage Disposal	Water Extension	Totals
Reconciliation to the Statement of Net Assets			
Cash and cash equivalents	\$ 568,780	\$ 52,841	\$ 621,621
Restricted cash	45,084	56,369	101,453
	<u>\$ 613,864</u>	<u>\$ 109,210</u>	<u>\$ 723,074</u>
Cash flows from operating activities			
Operating income (loss)	\$ (154,172)	\$ 4,786	\$ (149,386)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:			
Depreciation	123,797	43,372	167,169
(Increase) decrease in:			
Accounts receivable	687	-	687
Prepaid expenses	(21,169)	-	(21,169)
Deferred charges	1,605	1,416	3,021
Increase (decrease) in:			
Accounts payable	(89,894)	-	(89,894)
Due to other funds	(20,988)	-	(20,988)
	<u>\$ (160,134)</u>	<u>\$ 49,574</u>	<u>\$ (110,560)</u>
Net cash provided (used) by operating activities	<u>\$ (160,134)</u>	<u>\$ 49,574</u>	<u>\$ (110,560)</u>
Non-cash transactions			
Gain on investment in SCCMUA	\$ 85,929	\$ -	\$ 85,929

The accompanying notes are an integral part of these financial statements.

WATERTOWN CHARTER TOWNSHIP, MICHIGAN
Statement of Fiduciary Net Assets
December 31, 2005

	<u>Agency Fund</u>
Assets	
Cash and cash equivalents	\$ 1,364,785
Investments	<u>201,024</u>
Total assets	<u><u>\$ 1,565,809</u></u>
 Liabilities	
Current tax distributions and deposits payable	<u><u>\$ 1,565,809</u></u>

The accompanying notes are an integral part of these financial statements.

NOTES to the FINANCIAL STATEMENTS

WATERTOWN CHARTER TOWNSHIP, MICHIGAN

Notes to the Financial Statements

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1-A. Reporting entity

Watertown Charter Township, Michigan is a municipal corporation governed by an elected supervisor and a seven-member board. The Township has adopted the position of the Governmental Accounting Standards Board (GASB) Statement #14 regarding the definition of reporting entity and has determined that no entities should be consolidated into the financial statements as component units. The criteria for including a component unit include significant operational or financial relationships with the government.

1-B. Government-wide and fund financial statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include: 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

1-C. Measurement focus, basis of accounting, and financial statement presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the proprietary fund and fiduciary fund financial statements, except for agency funds, which do not have a measurement focus. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

WATERTOWN CHARTER TOWNSHIP, MICHIGAN

Notes to the Financial Statements

Governmental fund financial statements are reported using the *current financial resources measurement* focus and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period.

For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, franchise taxes, intergovernmental revenue, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when the government receives cash.

The government reports the following major governmental funds:

The *general fund* is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The government reports the following major proprietary funds:

The *sewage disposal fund* accounts for the activities of the government's sewage disposal system.

The *water extension fund* accounts for the activities of the government's water distribution system.

Additionally, the government reports the following fund types:

Special revenue funds. These funds account for revenue sources that are legally restricted to expenditures for specific purposes not including major capital projects.

Debt service funds. These funds account for the resources accumulated and payments made for principal and interest on long-term general obligation debt of governmental funds.

Capital projects funds. These funds account for revenue sources that are legally restricted to expenditures for major capital projects.

WATERTOWN CHARTER TOWNSHIP, MICHIGAN

Notes to the Financial Statements

Agency funds. These funds account for assets held for other governments in an agency capacity.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the *option* of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The government has elected not to follow subsequent private-sector guidance.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments-in-lieu of taxes and other charges between the government's water and sewer function and various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as *program revenues* include: 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the sewage disposal and water enterprise funds are charges to customers for sales and services. The enterprise fund also recognizes as operating revenues the portion of tap fees intended to recover the cost of connecting new customers to the system. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, then unrestricted resources as they are needed.

1-D. Assets, liabilities and equity

Deposits and investments

The government's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

WATERTOWN CHARTER TOWNSHIP, MICHIGAN

Notes to the Financial Statements

State statutes authorize the government to deposit in the accounts of federally insured banks, credit unions, and savings and loan associations, and to invest in obligations of the U.S. Treasury, certain commercial paper, repurchase agreements, bankers acceptances, and mutual funds composed of otherwise legal investments.

Investments, if any, are reported at fair value.

Receivables and payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either “due to/from other funds” (i.e., the current portion of interfund loans) or “advances to/from other funds” (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as “due to/from other funds.” Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as “internal balances.”

Prepaid items

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

Capital assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. The government defines capital assets as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities, if any, is included as part of the capitalized value of the assets constructed. No such interest expense was incurred during the current fiscal year.

WATERTOWN CHARTER TOWNSHIP, MICHIGAN

Notes to the Financial Statements

Capital assets of the primary government are depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings	15-40
System infrastructure	40
Vehicles	5
Equipment	5-10

Compensated absences

It is the government's policy to permit eligible employees to accumulate earned but unused vacation and sick pay benefits. Union employees are allowed to accumulate an unlimited amount of sick leave and non-union employees are allowed to accumulate 480 hours of sick leave, which is paid only upon illness while in the employ of the Township or at a rate of 50% upon retirement. Union employees are allowed to accumulate five days of vacation time and non-union employees are allowed to accumulate ten days of vacation time. Employees are only paid for unused vacation at the time of termination. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations or retirements.

Long-term obligations

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Fund equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance, if any, represent tentative management plans that are subject to change.

WATERTOWN CHARTER TOWNSHIP, MICHIGAN

Notes to the Financial Statements

NOTE 2 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

2-A. Budgetary information

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for the general and special revenue funds. All annual appropriations lapse at fiscal year end.

The budgets for the General Fund and the Special Revenue Fund are adopted at the department level.

The government does not utilize encumbrance accounting.

NOTE 3 – DETAILED NOTES ON ALL FUNDS

3-A. Deposits and investments

A reconciliation of cash and investments as shown on the Statement of Net Assets and Statement of Fiduciary Net Assets to deposits and investments as classified for note disclosure purposes is as follows:

Statement of Net Assets	
Cash and cash equivalents	\$ 1,389,103
Restricted cash and cash equivalents	101,453
Investments	3,921,491
Statement of Fiduciary Net Assets	
Cash and cash equivalents	1,364,785
Investments	<u>201,024</u>
Total	<u>\$ 6,977,856</u>
Deposits and investments	
Bank deposits (checking and savings accounts)	\$ 4,699,818
Investments	2,277,638
Cash on hand	<u>400</u>
Total	<u>\$ 6,977,856</u>

WATERTOWN CHARTER TOWNSHIP, MICHIGAN

Notes to the Financial Statements

The Township chooses to disclose its investments by specifically identifying each. As of year end, the Township had the following deposits and investments.

Investment	Carrying Amount (Fair Value)	Credit Rating	Maturity
Kent County tax notes	\$ 100,000	MIG 1 (Moody's)	3/1/2007
U.S. agency – FNMA (callable)	400,000	Unrated	3/14/2007
Governmental money market:			
Bank One	228,239	AAA (Moody's)	N/A
Citizens	811,982	Unrated	N/A
Comerica	167,713	Unrated	N/A
Fifth Third	105,202	Unrated	N/A
MBIA	<u>464,502</u>	Unrated	N/A
Total	<u>\$ 2,277,638</u>		

Interest Rate Risk. State law limits the allowable investments and the maturities of some of the allowable investments as identified above. The Township's investment policy does not have specific limits in excess of state law on investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. Maturities of investments, where applicable, have been identified above for the Township's investments.

Credit Risk. State law limits investments to specific government securities, certificates of deposits and bank accounts with qualified financial institutions, commercial paper with specific maximum maturities and ratings when purchased, bankers acceptances of specific financial institutions, qualified mutual funds and qualified external investment pools as identified in the list of authorized investments above. The Township's investment policy does not have specific limits in excess of state law on investment credit risk. Credit risk ratings, where applicable, have been identified above for the Township's investments.

Custodial Credit Risk – Deposits. Custodial credit risk is the risk that in the event of a bank failure, the Township's deposits may not be returned. State law does not require and the Township does not have a policy for deposit custodial credit risk. As of year end, \$ 2,844,804 of the Township's bank balance of \$ 4,944,804 was exposed to custodial credit risk because it was uninsured and uncollateralized.

Custodial Credit Risk – Investments. For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Township will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. State law does not require and the Township does not have a policy for investment custodial credit risk. None of the Township's investments were exposed to custodial credit risk at year end.

WATERTOWN CHARTER TOWNSHIP, MICHIGAN

Notes to the Financial Statements

Concentration of Credit Risk. State law limits allowable investments but does not limit concentration of credit risk as identified in the list of authorized investments above. The Township's investment policy does not have specific limits in excess of state law on concentration of credit risk. All investments held at year end are reported above.

3-B. Receivables

Receivables as of year end are as follows:

	General	Nonmajor	Sewage	Water		Amounts Not
	Fund	Governmental	Disposal	Extension		Expected to
	Fund	Funds	Enterprise	Enterprise	Total	be Collected
			Fund	Fund		Within
						One Year
Taxes receivable	\$ 561,535	\$ 18,567	\$ -	\$ -	\$ 580,102	\$ -
Special assessments receivable	13,835	-	1,008,586	868,434	1,890,855	1,808,017
Accounts receivable	3,561	550	13,547	-	17,658	-
Interest receivable	-	-	30,618	27,843	58,461	-
Due from other governments	98,001	-	-	-	98,001	-
	\$ 676,932	\$ 19,117	\$ 1,052,751	\$ 896,277	\$ 2,645,077	\$ 1,808,017

WATERTOWN CHARTER TOWNSHIP, MICHIGAN

Notes to the Financial Statements

3-C. Capital assets

Capital assets activity for the year ended December 31, 2005 was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>
<i>Governmental Activities</i>				
Capital assets not being depreciated:				
Land	\$ 41,570	\$ -	\$ -	\$ 41,570
Capital assets being depreciated:				
Buildings and improvements	150,330	-	-	150,330
Equipment	71,609	31,803	6,719	96,693
Vehicles	20,065	-	-	20,065
Total capital assets being depreciated	<u>242,004</u>	<u>31,803</u>	<u>6,719</u>	<u>267,088</u>
Less accumulated depreciation for:				
Buildings and improvements	(76,432)	(5,960)	-	(82,392)
Equipment	(43,940)	(15,691)	(6,719)	(52,912)
Vehicles	(20,065)	-	-	(20,065)
Total accumulated depreciation	<u>(140,437)</u>	<u>(21,651)</u>	<u>(6,719)</u>	<u>(155,369)</u>
Total capital assets being depreciated, net	<u>101,567</u>	<u>10,152</u>	<u>-</u>	<u>111,719</u>
Governmental activities capital assets, net	<u>\$ 143,137</u>	<u>\$ 10,152</u>	<u>\$ -</u>	<u>\$ 153,289</u>
<i>Business-type Activities</i>				
Capital assets not being depreciated:				
Construction in progress	\$ 53,622	\$ 882,682	\$ 936,304	\$ -
Capital assets being depreciated:				
Sewage disposal system	4,481,763	936,304	-	5,418,067
Water extension	1,734,895	-	-	1,734,895
Total capital assets being depreciated	<u>6,216,658</u>	<u>936,304</u>	<u>-</u>	<u>7,152,962</u>
Less accumulated depreciation for:				
Sewage disposal system	(1,414,749)	(123,797)		(1,538,546)
Water extension	(68,456)	(43,372)		(111,828)
Total accumulated depreciation	<u>(1,483,205)</u>	<u>(167,169)</u>	<u>-</u>	<u>(1,650,374)</u>
Total capital assets being depreciated, net	<u>4,733,453</u>	<u>769,135</u>	<u>-</u>	<u>5,502,588</u>
Business-type activities capital assets, net	<u>\$ 4,787,075</u>	<u>\$ 1,651,817</u>	<u>\$ 936,304</u>	<u>\$ 5,502,588</u>

WATERTOWN CHARTER TOWNSHIP, MICHIGAN

Notes to the Financial Statements

Depreciation expense was charged to functions/programs of the Township as follows:

Governmental activities:	
General government	\$ 14,467
Recreation and cultural	<u>7,184</u>
Total depreciation expense - governmental activities	<u>\$ 21,651</u>
Business-type activities:	
Sewage disposal	\$ 123,797
Water extension	<u>43,372</u>
Total depreciation expense - business-type activities	<u>\$ 167,169</u>

3-D. Payables

Payables as of year end are as follows:

	General Fund	Government- Wide Statements	Sewage Disposal Enterprise Fund	Water Extension Enterprise Fund	Total
Accounts payable	\$ 34,573	\$ -	\$ 17,500	\$ -	\$ 52,073
Accrued wages	16,169	-	-	-	16,169
Accrued interest payable	-	679	25,260	18,627	44,566
Other liabilities	<u>2,139</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,139</u>
	<u>\$ 52,881</u>	<u>\$ 679</u>	<u>\$ 42,760</u>	<u>\$ 18,627</u>	<u>\$ 114,947</u>

3-E. Interfund receivables, payables and transfers

At December 31, 2005, the General Fund reported an interfund receivable of \$27,358 and nonmajor governmental funds reported an interfund payable of \$27,358 in the fund financial statements.

For the year ended December 31, 2005, interfund transfers consisted of \$20,691 and \$4,510 from the Sewage Disposal Enterprise Fund and the Water Extension Enterprise Fund, respectively, to the General Fund.

WATERTOWN CHARTER TOWNSHIP, MICHIGAN

Notes to the Financial Statements

Transfers are used to: (1) move revenues from the fund that is required to collect them to the fund that is required or allowed to expend them; (2) move receipts restricted to or allowed for debt service from the funds collecting the receipts to the debt service fund as debt service payments become due; and (3) use unrestricted revenues collected to finance various programs accounted for in other funds in accordance with budgetary authorizations.

For the year ended December 31, 2005, the Sewage Disposal and Water Extension Enterprise Funds transferred funds to reimburse the General Fund for administrative costs and to reimburse the General Fund for prior year operating subsidies.

3-F. Long-term debt

General obligation bonds. The government issues general obligation bonds to provide funds for the acquisition and construction of major capital facilities. General obligation bonds have been issued for both governmental and business-type activities. No general obligation bonds were issued during the current year.

General obligation bonds are direct obligations and pledge the full faith and credit of the government. These bonds are issued as 10 to 20-year serial bonds with varying amounts of principal maturing each year. General obligation bonds currently outstanding are as follows:

Governmental Activities:

Bonds Payable:

\$470,025 wastewater treatment plant bonds due in annual installments of \$6,267 to \$31,335 through May 1, 2007, interest at 5.8% to 7%	<u>\$ 62,670</u>
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Business-type Activities:

Bonds Payable:

\$343,000 sanitary sewer improvement project special assessment bonds due in annual installments of \$8,000 to \$26,000 through May 1, 2010, interest at 6.8%	\$ 127,000
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\$995,000 sewage disposal system bonds due in annual installments of \$56,580 to \$104,730 through March 1, 2020, interest at 5.1% to 7.5%	895,000
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\$250,000 general obligation limited tax bonds due in annual installments of \$50,000 through August 1, 2009, interest at 2.3% to 2.9%	200,000
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\$360,000 special assessment bonds due in annual installments of \$25,000 to \$30,000 through August 1, 2018, interest at 2.3% to 4.1%	335,000
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WATERTOWN CHARTER TOWNSHIP, MICHIGAN

Notes to the Financial Statements

\$275,000 special assessment bonds due in annual installments of \$11,900 to \$47,175 through May 1, 2010, interest at 4.6% to 5%	\$ 150,000
\$275,000 special assessment bonds due in annual installments of \$7,995 to \$47,883 through May 1, 2009, interest at 4.7% to 5.2%	120,000
\$990,000 special assessment bonds due in annual installments of \$70,000 to \$75,000 through August 1, 2018, interest at 2.6% to 4.6%	920,000
\$150,000 special assessment bonds due in annual installments of \$10,000 to \$15,000 through August 1, 2018, interest at 2.3% to 4.1%	<u>140,000</u>
	<u>\$ 2,887,000</u>

Annual debt service requirements to maturity for bonds are as follows:

Year Ended December 31	<u>Governmental Activities</u>		<u>Business-type Activities</u>	
	Principal	Interest	Principal	Interest
2006	\$ 31,335	\$ 3,055	\$ 295,000	\$ 123,036
2007	31,335	1,018	300,000	111,596
2008	-	-	300,000	99,884
2009	-	-	301,000	87,682
2010	-	-	221,000	75,744
2011-2015	-	-	825,000	264,617
2016-2020	-	-	645,000	74,105
	<u>\$ 62,670</u>	<u>\$ 4,073</u>	<u>\$ 2,887,000</u>	<u>\$ 836,664</u>

WATERTOWN CHARTER TOWNSHIP, MICHIGAN

Notes to the Financial Statements

Changes in Long-Term Debt. Long-term liability activity for the year ended December 31, 2005, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
<u>Primary Government</u>					
Governmental activities					
Bonds	\$ 94,005	\$ -	\$ 31,335	\$ 62,670	\$ 31,335
Compensated absences	13,778	27,096	20,161	20,713	20,713
	\$ 107,783	\$ 27,096	\$ 51,496	\$ 83,383	\$ 52,048
Business-type activities					
Bonds	\$ 3,177,000	\$ -	\$ 290,000	\$ 2,887,000	\$ 295,000
Deduct unamortized bond discounts	(16,495)	-	(1,380)	(15,115)	-
	\$ 3,160,505	\$ -	\$ 288,620	\$ 2,871,885	\$ 295,000

For the governmental activities, compensated absences are liquidated by the general fund.

NOTE 4 – OTHER INFORMATION

4-A. Joint ventures

Southern Clinton County Municipal Utilities Authority

The Southern Clinton County Municipal Utilities Authority was created by contractual agreement between the Township, DeWitt Charter Township, Bath Charter Township, and the City of DeWitt to operate, maintain, administer and manage the sewage disposal system for the benefit of the contracting municipalities. Currently, the Township's ownership percentage in the joint venture is 16.202%. As of December 31, 2005, the Township's share of the Authority's net assets was \$1,065,644. Separate financial statements for the Southern Clinton County Municipal Utilities Authority are available at the office of the Authority at 3671 W. Herbison Road, DeWitt, MI 48820.

WATERTOWN CHARTER TOWNSHIP, MICHIGAN

Notes to the Financial Statements

Looking Glass Regional Fire Authority

The Township created a joint fire department with Eagle Township to be known as the Looking Glass Regional Fire Authority. The Authority will provide fire protection services to the entire geographical area comprising Eagle Township and the Charter Township of Watertown, and may contract with other municipalities to provide fire protection services. Currently, the Authority is funded primarily through contributions from Watertown Charter Township (65%) and Eagle Township (35%). During the year ended December 31, 2005, the Township contributed \$226,582 to the Authority. Separate financial statements for the Looking Glass Regional Fire Authority are available at the office of the Authority at 7720 W. Grand River Avenue, Grand Ledge, MI 48837.

4-B. Risk management

The Township is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During the year ended December 31, 2005, the government carried commercial insurance to cover all risks of losses. The Township has had no settled claims from these risks that exceeded its commercial coverage in any of the past three fiscal years.

4-C. Property taxes

The government's property taxes are levied on the assessed taxable value of property in the Township each December 1, which is the lien date, and are due in full by March 1 of the succeeding year, at which time uncollected taxes become delinquent. The December 1 levy is recorded as a receivable and deferred revenue at year end because it is intended to fund expenditures of the following fiscal year.

Assessed values as established annually by the government, and subject to acceptance by the County, are equalized by the State at an estimated 50% of current market value. Real and personal property in the Township for the 2004 levy were assessed and equalized at \$180,315,105 (not including properties subject to Industrial Facilities Tax exemption), representing roughly 50% of estimated current market value. The government's general operating tax rate for the 2004 levy was 4.6184 mills, with an additional 0.1916 mills for debt retirement.

WATERTOWN CHARTER TOWNSHIP, MICHIGAN

Notes to the Financial Statements

4-D. Pension plan

The Watertown Charter Township Group Pension Plan is a defined contribution pension plan established by the Township to provide retirement benefits to all participating full-time employees of the Township. Plan provisions and contribution requirements are established and may be amended by the Township Board. The Township is required to contribute 10% of employee gross earnings. Employee contributions are optional. Employee contributions vest immediately, whereas employer contributions vest at a rate of 20% per year.

For the year ended December 31, 2005, the Township's contribution to the Plan was \$33,992. Employee contributions were \$9,490.

4-E. Commitments

The Township is obligated for a recycling contract with future contracted payments through December 31, 2006 in the amount of \$114,330 as of December 31, 2005, which are expected to be paid by the General Fund.

4-F. State Construction Code Act Compliance

Public Act 245 of 1999 amended the State Construction Act to require Michigan municipal governments to establish fees that bear a reasonable relationship to the cost of operating their building departments, effective January 1, 2000. The Township has elected to record this activity in the General Fund.

For the year ended December 31, 2005, the Township's revenue and expenditures related to its building department were as follows:

Revenue – Building fee revenue	\$ 256,694
Expenditures	<u>261,087</u>
Current year loss	<u>\$ 4,393</u>
Losses absorbed in 2000-2004	<u>\$ 2,643</u>

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COMBINING FUND
FINANCIAL STATEMENTS

WATERTOWN CHARTER TOWNSHIP, MICHIGAN
Combining Balance Sheet
Nonmajor Governmental Funds
December 31, 2005

	<u>Special Revenue</u>	<u>Debt Service</u>	<u>Capital Projects</u>	
	<u>Township Improvement Revolving</u>	<u>Wastewater Treatment Plant Bonds</u>	<u>Cemetery Improvement</u>	<u>Totals</u>
Assets				
Cash and cash equivalents	\$ 32,001	\$ 19,394	\$ 3,671	\$ 55,066
Investments	187,460	-	87,773	275,233
Taxes receivable	-	18,567	-	18,567
Accounts receivable	-	-	550	550
<u>TOTAL ASSETS</u>	<u>\$ 219,461</u>	<u>\$ 37,961</u>	<u>\$ 91,994</u>	<u>\$ 349,416</u>
<u>LIABILITIES AND FUND BALANCES</u>				
Liabilities				
Due to other funds	\$ 27,358	\$ -	\$ -	\$ 27,358
Deferred revenue	-	33,943	-	33,943
Total liabilities	27,358	33,943	-	61,301
Fund balances				
Unreserved, undesignated	192,103	4,018	91,994	288,115
<u>TOTAL LIABILITIES, AND FUND BALANCES</u>	<u>\$ 219,461</u>	<u>\$ 37,961</u>	<u>\$ 91,994</u>	<u>\$ 349,416</u>

WATERTOWN CHARTER TOWNSHIP, MICHIGAN
Combining Statement of Revenue, Expenditures and Changes in Fund Balances
Nonmajor Governmental Funds
For the Year Ended December 31, 2005

	Special Revenue	Debt Service	Capital Projects	
	Township Improvement Revolving	Wastewater Treatment Plant Bonds	Cemetery Improvement	Totals
Revenue				
Taxes and special assessments	\$ -	\$ 36,403	\$ -	\$ 36,403
Interest and rentals	4,833	112	1,509	6,454
Total revenue	4,833	36,515	1,509	42,857
Expenditures				
Capital outlay	-	-	2,230	2,230
Debt service:				
Principal	-	31,335	-	31,335
Interest	-	5,393	-	5,393
Total expenditures	-	36,728	2,230	38,958
Net changes in fund balances	4,833	(213)	(721)	3,899
Fund balances, beginning of year	187,270	4,231	92,715	284,216
Fund balances, end of year	\$ 192,103	\$ 4,018	\$ 91,994	\$ 288,115



REHMANN ROBSON

Certified Public Accountants

A member of THE REHMANN GROUP



March 1, 2006

To the Board of Trustees of the
Watertown Charter Township
Grand Ledge, Michigan

We have audited the financial statements of Watertown Charter Township for the year ended December 31, 2005, and have issued our report thereon dated March 1, 2006. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility Under Auditing Standards Generally Accepted in the United States of America

As stated in our engagement letter dated January 20, 2006, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement and are fairly presented in accordance with accounting principles generally accepted in the United States of America. Because an audit is designed to provide reasonable, but not absolute assurance and because we did not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by us.

As part of our audit, we considered the internal control of Watertown Charter Township. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

Significant Accounting Policies

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we advised management about the appropriateness of accounting policies and their application. The significant accounting policies used by Watertown Charter Township are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year. We noted no transactions entered into by Watertown Charter Township during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected.

- Management's estimate of the original cost and accumulated depreciation of its infrastructure capital assets is based on current replacement costs, and an assumed rate of inflation from the dates of original acquisition/construction. We evaluated the key factors assumptions used to develop the original cost and accumulated depreciation of the City's infrastructure capital assets in determining that they are reasonable in relation to the financial statements taken as a whole.
- Management's estimate of the useful lives of depreciable fixed assets is based on the length of time it is believed that those assets will provide some economic benefit in the future. We evaluated the key factors and assumptions used to develop the useful lives of those assets in determining that they are reasonable in relation to the financial statements taken as a whole.

Audit Adjustments

For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on Watertown Charter Township's financial reporting process (that is, cause future financial statements to be materially misstated). In our judgment, none of the adjustments we proposed, whether recorded or unrecorded by Watertown Charter Township, either individually or in the aggregate, indicate matters that could have a significant effect on Watertown Charter Township's financial reporting process.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Issues Discussed Prior to Retention of Independent Auditors

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as Watertown Charter Township's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Difficulties Encountered in Performing the Audit

We encountered no difficulties in dealing with management in performing our audit.

This letter is intended for the use of the Board of Trustees, management, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

A handwritten signature in black ink, reading "Lehmann Johnson". The signature is written in a cursive, flowing style with a large initial 'L' and 'J'.

Watertown Charter Township

Comments and Recommendations

For the Year Ended December 31, 2005

During our audit we became aware of certain issues regarding internal control and financial reporting. This memorandum summarizes our comments and suggestions regarding these matters. This memorandum does not affect our report dated March 1, 2006 on the financial statements of Watertown Charter Township.

Special Assessments

The number of special assessment districts has increased significantly over the past five years. Proper accounting controls require reconciling the detail receivable accounts with the control accounts (general ledger) on a periodic basis. During our audit procedures on special assessments, we noted that the amounts in the supporting documentation did not agree with amounts recorded in the Township's financial records, which repeats a comment of the prior year. Even though there has been improvement in this reconciliation process, we noted there still does not appear to be any reconciling of the balance on a consistent basis. In order to allow for better monitoring of the Township's financial position, we recommend that the Township perform reconciliations for amounts collected to ensure proper recording. These reconciliations should be performed at least semi-annually in order to avoid year end audit adjustments.

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